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National Wine Market

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Report Highlights:

Since 2003, the wine market has experienced an average annual growth rate (AAGR) of 17 percent by volume and currently holds a retail value of 7.15 billion dollars. Over the same time period, China's imported wine market has achieved a 37 percent AAGR, holding a current customs value of $381 million. Overall, 51 percent of wine is sold in the on-trade sector; the rest sold in the off-trade retail sector. Of retail purchases, 86 percent of bottles purchased were priced below $7 in 2008. Three exporting countries –France, Australia and Chile- comprise 70 percent of the imported wine market, while four domestic companies control 27 percent of the total wine market. The United States ranks fifth in terms of value among countries exporting wine to China, but is losing market share in a growing market.

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Introduction

Other reporting systems in China use the term "wine" in reference to the entire market of fermented fruit alcohol, also including rice wine. In this report, the term "wine" will refer specifically to still grape wine unless otherwise indicated. "Grain-based wines" are commonly known as rice wines, but include all traditional Chinese spirits.

Further clarification is required for the term "disposable income." "Disposable income" is gross income minus government withholdings such as income taxes and social security contributions. "Disposable income" gives a better understanding of consumers' actual purchasing ability, which is the reasoning behind its use.

Executive Summary

Since 2003, the wine market has experienced an average annual growth rate (AAGR) of 17 percent by volume and currently holds a retail value of 7.15 billion dollars. Over the same time period, China's imported wine market has grown by 37 percent AAGR, holding a current customs value of $381 million. Overall, 51 percent of wine is sold in the on-trade sector; the rest sold in the off-trade retail sector. Of retail purchases, 86 percent of bottles purchased were priced below $7 in 2008.

Although wine exports to China experienced a 46-percent growth over the year prior in the first quarter of FY09, second quarter numbers illustrate the market's first decline since 2003. Despite the market setback, projections continue to forecast an annual growth of 12 percent yearly for the next five years.

Presently, target wine consumers are aged 25 – 49 and primarily reside in urban areas with higher than average disposable incomes. Higher education and exposure to Western culture amplify the markets openness to new imported wines. The selection of adequate distributors and a branding strategy are the keys to the market development.

In 2008, China's 453,000 hectares of vineyards produced 6.4 million tons of grapes, 10 percent of the world's market. Using about 10 percent of the domestic grape production, Chinese wineries produced 665 million liters of wine in 2007, which was up 34 percent from the year prior. Of the 500 wineries, four domestic companies control 27 percent of the total wine market: COFCO, Changyu, Weilong, and Dynasty. With foreign investment and streamlining production methods, domestic producers are catching up to western production capabilities, leaving a small window of opportunity for new market entrants.

Still, production methods of China's past have left the quality market niche wide open, prompting 70 countries to export to China in the last nine years. In 2008, just over 50 countries exported wine to China. Three countries control over 70 percent of the market for imported wines: France, Australia, and Chile.

Leading domestic companies and exporting countries remain highly active in marketing and promotional strategies as well as creating a wine culture throughout China. Commitment, creativity, and sound marketing continue to fuel the top player's increasing market share. Adaptation of such practices promises to win the United States a larger portion of the market. The U.S. wine exporters' biggest problem in the China market is lack of awareness in consumers' minds between the United States and quality wine. Cooperation between exporters, trade groups and Agricultural Trade Offices in China could remedy the situation.

Section I. Market Summary

A. The China Wine Market

A.1 Current Market situation

Although grape wine in China has a history spanning over 2,000 years, it is generally perceived as a foreign drink, always a distant runner-up to beer and traditional "high octane" liquors such as grains-based wine. The last two decades have brought grape wine's first notable impact on the drinking culture as well as its first signs of momentum with China's consumers.

The wine sector is experiencing remarkable growth rates, albeit the market is starting from a near nonexistent base. Since the year 2003, the market has experienced an average annual growth rate (AAGR) of 17 percent by volume and currently holds a retail value of 7.15 billion dollars (Euromonitor). Over the same time period, China's imported wine volume base has grown by an AAGR of 37 percent, holding a current customs value of $381 million (WTA). Imports comprise 18 percent of the market volume, but are poised to gain further market share as domestic production remains in development. Growth rates suggest that increases in demand will exceed domestic production capability.

Trade data for fiscal year 2009 (FY09) shows that for the first quarter (Oct. 1 – Dec. 31), which was during the initial symptoms of the global financial slowdown, exports to China remain unfettered with a 46-percent increase year-on-year for the quarter (WTA). Preliminary measurements for the second quarter, however, demonstrate the market's first negative growth since 2003. In spite of the disappointing decline, Post concurs with Euromonitor's forecast of 12-percent annual increases in the grape wine market over the next five years.

Wine market potential: driving forces and negative factors

In efforts to preserve grains for food production rather than alcohol production, members of the National People's Congress in general assembly meetings trumpeted the health benefits of grape wine consumption over traditional grains-based wine. The effects of such a stance have been amplified due to a flurry of food safety scandals and growing health concerns.

The ongoing cultural shift towards health awareness can, to some degree, be credited to the one child policy. The children of this generation are at times referred to as "little emperors," receiving the undivided attention of both parents and both sets of grandparents as well as their concern for the child's health. This health oriented lifestyle is in turn being incorporated into the lives of the parents and it is safe to assume that the trend will continue as the one-child generation transitions into adulthood and has children of its own.

China's unparalleled economic growth of 9.9 percent in real Gross Domestic Product (GDP) a year over the past decade is providing new income to consumers and giving them the means and opportunity to purchase new products to pair with their newfound higher standard of living. Holding true to wine's image around the world, in China wine is a symbol of wealth and living well, and is purchased to solidify the burgeoning middle class's arrival to affluence.

Furthermore, since China established its currency (Renminbi, or yuan), it has pegged its value to the U.S. dollar at various set points, until 2005 when China partially lifted restrictions allowing the currency to adhere to a floating exchange rate. Since then, its value has appreciated by 21 percent against the dollar, furthering the population's ability to purchase higher quantities of luxury imported products such as wine.

In the gift giving culture of China, alcohol has traditionally been a staple but usually in the form of harder liquors. Fueled by wine's prestigious image, it is increasingly becoming a common gift to friends, family, and business associates. Evidence of this can be found in the high sales spike around the Chinese Lunar New Year, which is typically in January or February.

Red wine continues to be favored by consumers primarily for cultural reasons discussed in Section I.B. Such focus on red wine may over-saturate the market and drive the price for reds down in time, but has yet to do so in the current market.

In 2008, 86 percent of individual wines purchased in retail outlets were valued at less than seven U.S. dollars (Euromonitor). Although the market is mostly price driven, key industry players have suggested that tremendous potential lies in the high end price ranges as well as the low. They have noted that the mid-range section presents problems because uneducated consumers tend to either trade up or down from this price point.

In the beginning of 2008, Hong Kong eliminated all duties on wine imports causing a massive influx of product to enter the island. Since then Hong Kong has served as an untaxed hub for foreign goods to Mainland China. However, the value of the method has yet to be realized as the island is treated as a separate entity in terms of trade. This change offers hope that China may lower its duty rates further from what was done in 2004 to correspond with their admittance to the World Trade Organization (WTO), but as it stands, wines entering Mainland China through legal channels are subject to full duties.

Market Quick Facts

- Grape wine market is valued at $7.15 billion in Retail Value (Euromonitor)
- Imports are valued at $381 million declared value and averaging 37-percent growth yearly (WTA)
- Market is forecast to grow by 12-percent annual increases over the next five years (Euromonitor)
- Eighty-six percent of retail wine purchases are less than 7 U.S. dollars (Euromonitor)

Hindering the imported wine market is a streamlining domestic market. Though still in its early stages, foreign investment in capital and technology will eventually bring domestic vineyards up to par with the rest of the wine world in terms of quality and production efficiency.

Local production companies have well established distribution and marketing channels with widely recognized brands. Many domestic brands lack quality but are inexpensive. Local wines remain the highest contenders for market share, though they have been unsuccessful in capturing the perceived class and allure of foreign wine.

Some foreign producers are carving out larger pieces of the pie, but these are either the first to the market or are currently investing highly in promotional efforts or both. This continues to be a major challenge for new market entrants, yet offers hope to those willing invest in the sector.

The United States maintains a trade surplus with China in the agricultural sector and U.S. products are highly regarded as both safe and the best in quality. However, the United States is not recognized as a quality wine producer, or a wine producer at all in some cases, by the Chinese consumer. Recognition of the United States as a major wine producer is the biggest obstacle for U.S. wine exporters to China.

A.2 Domestic Production

China is a wine-producing country with over 500 wineries in operation, ten or so of which are major producers. The top four domestic companies-COFCO, Changyu, Weilong, and Dynasty-control over 27 percent of the entire grape wine market in China. These companies will be discussed in greater depth in a later section, but in general each has nationwide distribution, high brand recognition, customer loyalty, and a well defined niche.

Of China's 14 million hectares of permanent cropland, 453,000 hectares are designated to growing grapes; outpacing the planted area of Germany and the United States combined (wines-info). China's grape production is immense, accounting for nearly 10 percent of the world's grapes: 6.4 million tons in 2008. China is ranked third in this regard, under Italy and France, respectively. Of the total grapes produced in China, approximately 80 percent are consumed as fresh table grapes, 10 percent are reserved for raisin production, and the rest for making wine and grape juice.

China has one of the largest fresh fruit markets in the world with increases in demand across the board. The grape market is experiencing a 10 percent increases in demand, with preferences towards local grapes due to price and freshness. With a growing demand for fresh local grapes, it is not likely the current 80:10:10 processing ratio will change dramatically and allays fears of a pending flood of domestic wines to the market.

Domestic Production at a Glance

- Over 500 domestic wineries in operation
- 453,000 hectares designated as vineyards (wines-info)
- China accounts for nearly 10% of world grape production (Euromonitor)
- Produced over 665 million liters of wine in 2007 (Euromonitor)
- Domestic red retail price ranges from $1.09 to $57.66

Major vineyards and wineries are located in China's northeast around the Bohai Bay rim, in particular Hebei and Shandong provinces, and in its far-flung western province of Xinjiang. These areas which are about the same latitude as the south of France. Domestic wine production volume varies amongst reports, but in 2007 it was estimated to be over 665 million liters. Production was up 34 percent from the previous year and is set to continue growth through improved methodology and efficiency. Initial measurements for the 2008 production volume, however, estimate only a five percent growth and suggests production is hitting some upward limit.

As of June 2008, the average off-trade retail price for a domestic red wine was $9.62, at the June 2008 exchange rate of 6.82RMB to one U.S. dollar. This is a dramatic increase from previous FAS reports and suggests that the average has been driven upwards by domestic producers' experimentation with higher quality wines. Prices range from $1.09 on the low end and to $57.66 on the high end of the market. It is important to reiterate that 86 percent of off-trade purchases were below the $7 mark. This is a segment still mainly dominated by domestic producers. Similarly in restaurants, the least expensive bottle of domestic wine is priced $5 to $10 lower than the least expensive import.

“In Vino Veritas?”

China’s domestic wine has been under scrutiny for years by oenologists world-wide who have questioned its poor quality and unregulated production. Some critics and wine enthusiasts proclaimed Chinese wine was nothing more than “sugar water with some food coloring, alcohol, and grape juice” and that they simply “could not trust the label (Heimoff).” Unfortunately, wine fraud is an undeniable reality of the sector.

Some domestic producers blend in both imported wine and pure alcohol during production and label it “domestic wine.” Some domestic producers justify the practice by claiming it caters to consumer tastes. However, the National Grape Wine Standard of January 2008 was supposed to eliminate poor quality wines from entering the market through the enforcement of the 2005 standard, GB15037. Though imported wine is subject to these standards, in the domestic market enforcement is inconsistent. Nevertheless, progressively more domestic producers are ceasing such practices on their own to improve the quality of their label and reach the newly enforced certificate standard.

Joint ventures with foreign wine companies, notably Dynasty’s partnership with Remy Cointreau and Changyu’s partnership with Groupe Castel, have helped China’s wineries procure new vines, improve production technology, and leverage foreign expertise and “know how.” Domestic producers are investing heavily in marketing and brand building, pushing imported wines up the value pyramid.

A.3 Import Market

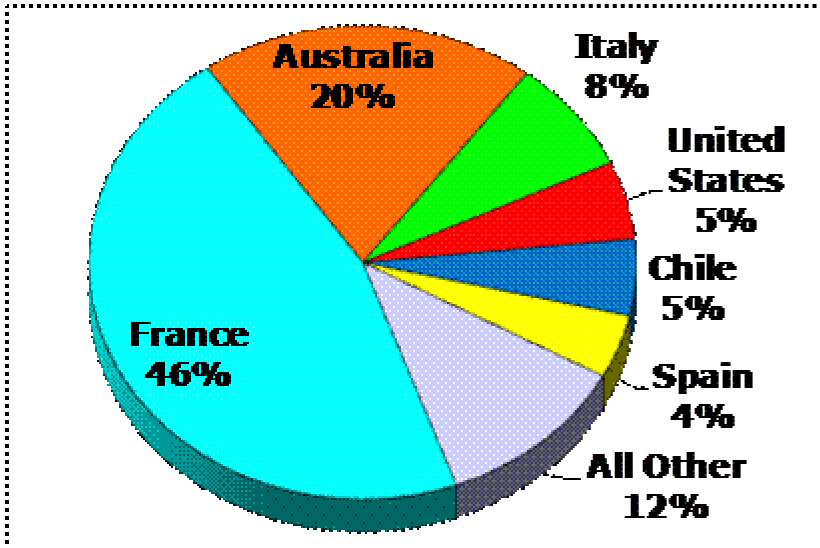
The blending and unregulated production methods of China’s past have left the quality market niche wide open. First to market suppliers have been capitalizing on this gap in a big way. Since 2003, foreign wine imports to China have grown 274 percent in total volume; 464 percent since 2001. In contrast, during the same five-year period, since 2003, the total market has grown by 91 percent. Import growth has hovered close to the actual volume added to the total market, significantly surpassing it in 2006 and 2008. This reveals that either new consumers are more likely to buy imported wines, or existing consumers are buying more or trading up to a foreign brand. Either situation bodes well for the future of the import market.

China’s demand for wine has attracted exporters, large and small. In the last nine years, over 70 countries have thrown their hat in the ring. In 2008, just over 50 countries exported wine to China, the decline showing that the market is not for everyone. As seen in Table 1, France is the import leader, controlling 39 percent of the market’s value; up 52 percent from the previous year. Though the United States has experienced tremendous total growth this decade, in value by 912 percent and volume by 618 percent, it has yet to regain its ten-year peak market share of 8 percent, held in 2001. This illustrates the point that the United States, much like the rest of the world, has found it difficult to keep up with French wine export growth to China.

Bottled and Bulk

Of the $381 million import market, $276 million sold in bottled form in 2008, with France the leader in this as well, controlling 46 percent of the market's value. Chart 1 shows current market shares, in terms of value, for imported bottled wine. A point that is even more telling of France's dominance is that over the past three to four years, while all other top countries aside from Argentina have lost market share, France has gained, in terms of value, for both the bottled and overall market. The bottled market is presenting itself as an area of comparative advantage for U.S. wine. The United States is ranked fourth place in the imported bottled market. This in contrast to positions as low as seventh in terms of bulk wine volume.

Chart 1: Imported Bottled Wine Market Market Shares in 2008 Top Player Value



World Trade Atlas

France remains the leader of the pack while the United States moves up to number four.

Table 1: China Wine Imports
(USD millions)

Total Value		Value						% Change	% Share
Rank	Country	2003	2004	2005	2006	2007	2008	- 08/07 -	2008
0	-World-	33	53	75	139	258	381	48	100.0
1	France	8	14	22	39	98	150	52	39.3
2	Australia	3	6	11	27	45	59	31	15.6
3	Chile	16	20	13	21	47	57	23	15.0
4	Italy	1	3	4	12	20	27	32	7.1
5	United States	2	4	4	7	11	19	76	5.1
6	Spain	1	2	13	20	17	19	11	5.1
7	Argentina	1	1	3	4	3	19	494	5
8	Germany	1	1	2	3	5	9	57	2.27
	Other	1	2	3	5	11	22	100	5.7
Bottle Value		**Value**						**% Change**	**% Share**
Rank	Country	2003	2004	2005	2006	2007	2008	- 08/07 -	2008
0	-World-	13	25	40	77	184	276	50	100.0
1	France	6	9	15	29	83	127	53	45.9
2	Australia	2	6	9	17	36	55	51	19.9
3	Italy	1	2	3	8	18	22	21	7.8
4	United States	2	3	3	5	9	15	72	5.3
5	Chile	1	1	3	4	8	14	70	5.2
6	Spain	1	1	2	6	12	12	-4	4.3
7	Germany	0.4	1	2	2	5	8	60	2.9
8	Argentina	0.3	0.4	1	1	3	5	97	1.8
	Other	1	2	3	5	10	19	87	6.7
Bulk Value		**Value**						**% Change**	**% Share**
Rank	Country	2003	2004	2005	2006	2007	2008	- 08/07 -	2008
0	-World-	19	24	31	53	60	84	39	100.0
1	Chile	15	19	10	17	38	43	12	50.6
2	Argentina	1	0	2	3	1	14	2143	16.5
3	France	1	2	3	2	4	7	59	7.9
4	Spain	0.4	1	12	14	5	6	35	7.3
5	United States	0.2	1	1	1	2	4	95	5.3
6	Italy	0.3	1	1	4	2	4	144	4.6
7	Australia	0.2	1	2	10	8	4	-54	4.6
8	South Africa	0.01	0.00	0.05	0.12	0.36	2	476	2.5
	Other	0.43	0.19	0.35	0.29	0.42	1	51	0.8

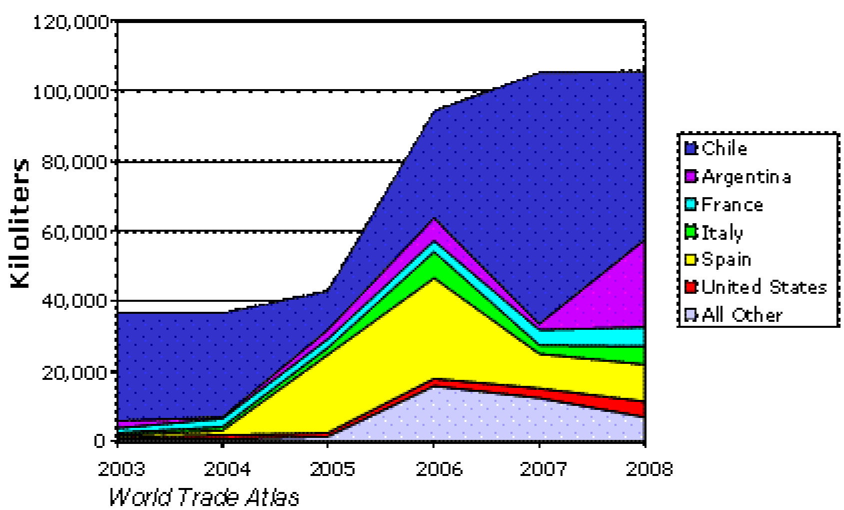
Source: China Customs

When comparing value and volume standings, the United States, Chile, Germany, and Argentina, switch positions, respectively. This shows that even in bottled form South American wine is less expensive than other imported competition. This speaks well for their competiveness against domestic brands. The average price for an imported red wine is $17.55 a bottle; nearly $8 more than a domestic alternative.

Clearly the imported bottled import market is more dynamic than bulk, with 75 percent of the import value and a faster average growth rate. From 2003, bottled and bulk markets have encountered 41 and 12 percent AAGR's, respectively.

The standings in the bulk wine market are significantly different from those of the bottled market (See Table 1). The chart below demonstrates how Chile's and Argentina's relatively inexpensive product pushes them to ranks of one and two, respectively. The United States holds 5 percent of the bulk value totaling $4.4 million, up 95 percent from last year; and 4 percent of the volume, which is up 50 percent. Chart 2 illustrates the overall bulk wine picture.

Chart 2: Bulk Wine Exports to China, 2003-2008
Major Exporters Past and Present



Total bulk volume begins to plateau.
Meanwhile, Chile remains number one.

Reliable numbers are hard to come by, but anecdotal evidence and industry interviews suggest much of the bulk wine is still mixed with local product, some in proportions equal to international standards, while others far beyond exceed what can be acceptably labeled as domestic but is labeled as such nonetheless. However, total volume is beginning to plateau, signifying that the domestic industry may be ceasing to rely on mixing as a steady form of growth (See Chart 2). Still, outside of bulk wine allotted for mixing, some product is shipped to China for bottling under producer labels or under a private Chinese label. In both cases, they are still labeled as imports from their respective country, yet by bottling in China these wines can effectively lowered production costs.

Local traders watch tentatively as the market evolves, paying close attention to trends as they emerge. Be it in bottled or bulk form, China has not only proven to be an ideal outlet for the grape glut, which sometimes plagues successful wine producing countries, but the largest developing market for premium product as well.

B. Consumer Analysis

China's skyrocketing economy has increased the wealth of its urban citizens. In major metropolitan cities, disposable income is nearly two times higher than the national average; and closer to eight times higher than in rural areas. The disposable income national average has grown by an AAGR of nearly 19 percent over the last five years. From 2007 to 2008 disposable income increased by 24 percent and is currently $1,724 per capita.

The highest average income demographic is aged 25 through 39, with a disposable income of around $2,500. Representing the majority of the upper-middle class, this grouping encompasses over 321 million people. Euromonitor notes that the most affluent population is aged forty to forty-nine, including roughly 50 percent of the income bracket of $40,000 plus and close to 60 percent of those earning over $100,000. This well-to-do population has already shown considerable interest in wine, with increasingly more private wine dinners, notable auction purchases, and private wine cellar installations.

Consumer Quick Facts

- The burgeoning middle and upper classes promise high future growth.
- Consumer market is young and generally unfamiliar with all aspects of wine
- Brand loyalty and affordability determine consumption.
- Wine drinking practices vary greatly from Western norms
- Sizable expatriate populations, predisposed to wine, live in metropolises of China

Table 2: Wine Consumer Profile

General Population	
	2008
Population	1,322,971,800
Annual Disposable Income Per Capita	$1,724
Wine Target Market	
	2008
Population Aged 25 - 49	535,203,600
Average Annual Disposable Income Per Capita	$2,750
Education	College Graduate
Location	Urban
Sex (Male:Female)	60:40

Source: Euromonitor and ATO Research

Beyond prosperity, the opening of the economy has brought about a sharp contrast in consumer behavior between the young and old. The younger generation is more educated and more exposed to Western culture; therefore, more willing to sample a higher priced imported wine. Many of them have studied or traveled abroad and are eager to bring their new tastes home. Market comments suggest that the savings rate is significantly lower in younger demographics, which are more likely to spend incomes on leisure. Although the national savings rate has remained constant and there is no further data to support this generalization, it has been a recurring statement during industry and social media research interviews.

Women and “Little Emperors”

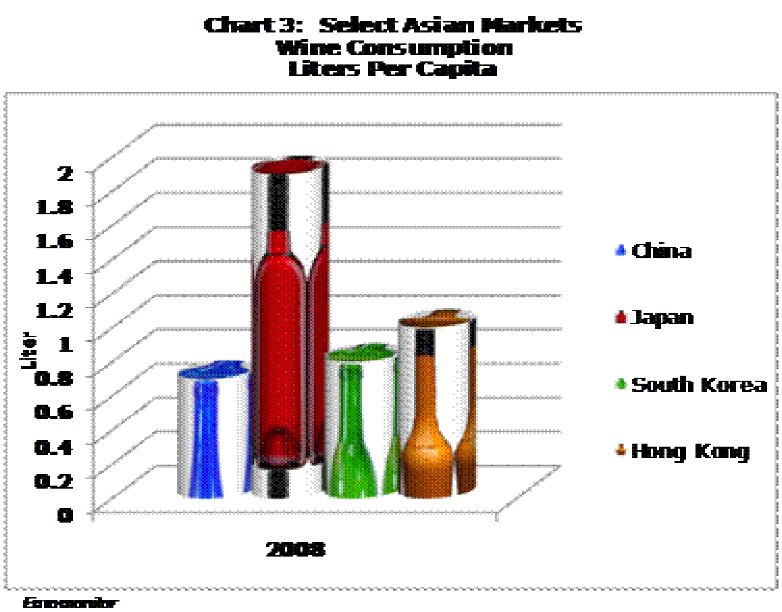
One-child policy promotional advertisement, circa 1980’s

With increased health consciousness related to wines, women that culturally have not been encouraged to drink alcohol now add wine to their drink lists or those that already drink alcohol switch from local spirits to a healthier alternative. Furthermore, wine’s well established image of sophistication prompts a greater percentage of Chinese women to partake than other Asian countries. It is estimated that 40 percent of wine drinkers in China are women.

Also, China's one child policy has left a large demographic of young, only children, with greater disposable income that are receptive to foreign products and willing to try imported wines. These trends have opened up lucrative markets that local industry is capitalizing on and U.S. wine exporters can target.

“Good or bad, it is My Country’s Wine” – Expatriates in China

Several million expatriates called China home in 2008, with another 26 million overseas visitors reported in 2007 (China Statistical Yearbook). As China becomes more of a financial powerhouse, and its tourism industry continues to blossom, these figure will only increase in years to come. Industry interviews in the specialty retail sector have noted that their most frequent customers are neighborhood expats knowledgeable of wine-food pairings, yearning for a taste of their home. While this demographic may seem small compared to the total population of China, it is a demographic who are already prone to buying premium wines.

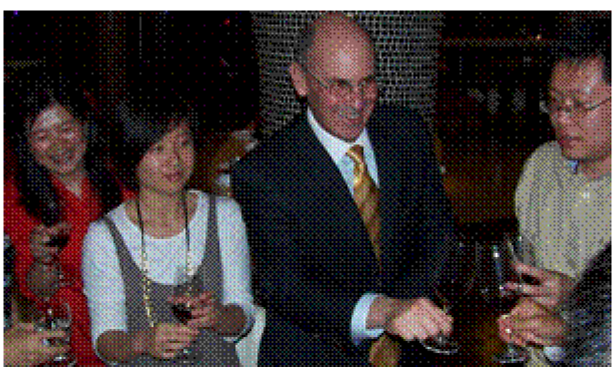


China’s per capita wine consumption is predicted to surpass those of most nearby neighbors within five years.

Consumption Set to Soar

China’s grape wine per capita consumption of 0.7 liters is low when compared with Western countries like the United States (8.1 L), England (21.2 L), and Canada (15.2 L); and still comparatively low in contrast to other Asian countries such as Japan (1.8 L) and Hong Kong (0.9 L) (See Chart 3). Re sistance to drinking grape wine comes from the older generations mostly, who are accustomed to grains-based wines. However, based on discussion with the local media, the younger population is losing their taste for grains-based rice wine due to growing concerns over health and taste. In correlation, consumption statistics show that non grape wine consumption is increasing at a much slower rate than that of grape wine. Furthermore, in five years, grape wine in China is projected to catch up and surpass consumption in Hong Kong, which in its own right has become an important hub for wine culture not only in Asia but in the world. South Korea is also an important regional consumer market, and is Asia's third largest alcohol market. Hope rests in increasing public awareness of well being and highly publicized health benefits of grape wine to continue the growth trend and transition away from China's traditional liquors.

Because low priced domestic brands are the most popularly purchased products, many first time consumers are basing their initial preferences and expectations on wine distinct from those typically imported from traditional wine producing countries. The average consumer knows nothing about wine attributes. Beyond domestics, awareness of foreign wines is strictly relative to the investment level and time in the market of a given country. An example that speaks to the awareness of U.S. wines in the Chinese market occurred during a research interview with a local lifestyle newspaper. The Agricultural Trade Office (ATO) Shanghai staff asked: "Who makes wine and imports it to China?" Out of all the media representatives, none mentioned U.S. wine in their initial response, only to come up with the answer after the second round of prompting the question. Not surprisingly, even though the United States is ranked fifth in the market, when an importer tells a potential consumer that, for example, Washington wine is unique because the climate allows producers to control water contact, the consumer usually asks, "Americans make wine?"



ATO Shanghai Director entertaining guests during a trade mission banquet

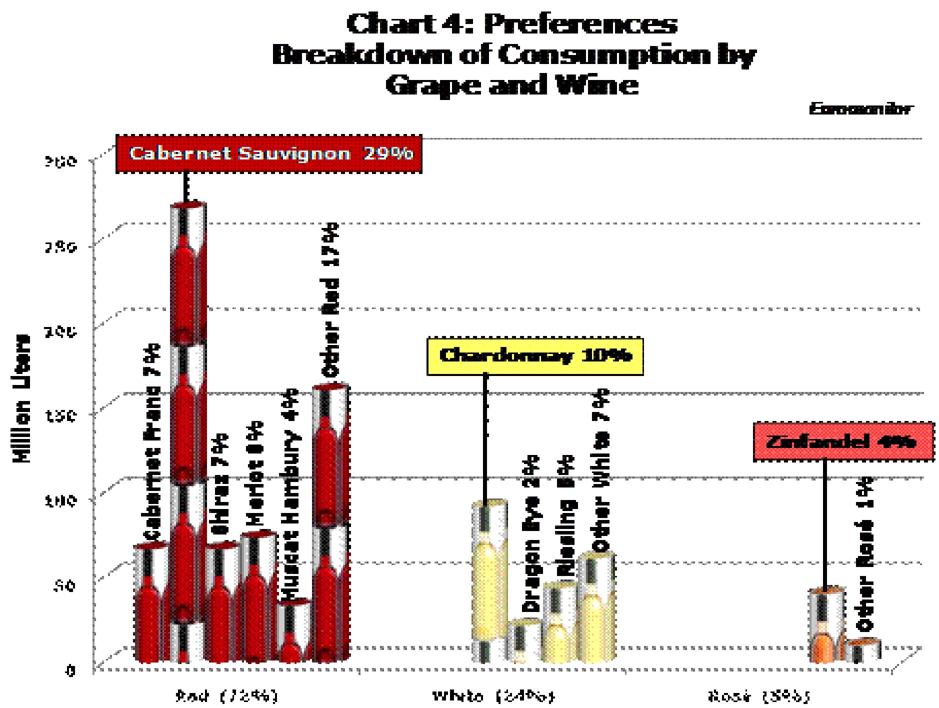
"What's the Occasion?"

At present, many wine purchases by local Chinese fall largely into two categories: banquet dinner purchases and retail gift purchases. Formal banquet settings involve the ordering of expensive dishes and drinks to demonstrate respect for guests or colleagues. As of late, red grape wine frequently substitutes traditional white grains-based wine at official banquets, especially for toasts. This practice has been encouraged by the Chinese government in attempts to improve health and reduce levels of harmful inebriation. For more information on gift giving in China refer to GAIN report CH8402.

Preferences

Cabernet Sauvignon is the dominant favorite among consumers in China, followed by Chardonnay and Merlot (See Chart 4). Also, as mentioned before red wines outsell white and rosé combined, clinging to nearly three-fourths of the still grape wine market.

“Red”



Cabernet Sauvignon towers above the rest as the most drank varietal in China. Chardonnay at a distant second.

The red color holds positive connotations in Chinese culture. It symbolizes good fortune, happiness, and celebrations. Traditional Chinese weddings call for the bride to wear a red dress (as opposed to white); and red signs, lanterns, and envelopes adorn virtually all surfaces during the Chinese Lunar New Year Festival.

Results of blind tastings indicate there is promise for American wines. In taste tests, Chinese consumers showed a preference for the fruitier flavor of U.S. wine. Other wine consulting industry experts claim dry wine is the preferred selection. Separate reports account that dry to semi-dry wines account for 50-75 percent of all wine sales, dry red being the most popular. In this emerging market, clearly taste preferences are still forming.

“Dare to Spend on Quality” – Consumer Loyalty to Valued Products

Further conflict arises between brand loyalty and price sensitivity. Consumers are more willing to buy inexpensive wine rather than running the risk of buying an unknown relatively more expensive wine that could be of poor quality. In this regard, the overall market is highly price-sensitive, leaving a niche market for pricier imported wines. However, consumers also rely heavily on word of mouth and popular opinion in determining their purchasing decisions in place of their own knowledge. Typical is this statement made by a key industry player: “They just don’t know what their looking for. Once a label is associated with quality, they will opt for it given the opportunity.” This behavior is one of the reasons why domestics and French wine sales, which have survived the vetting process, remain strong and recognizable. Once established, brand loyalty is likely. When purchasing imported wine, Chinese consumers need to feel like they are getting value from their purchase.

“Gan Bei!”

Drinking alcohol during celebrations and other gatherings is deeply rooted in Chinese culture. It is time for friendship, business, and different degrees of bonding. Such well followed tradition tends to excite producers of all alcohol, but for wine producers, developing a culture of wine consumption with food still has a long way to go.

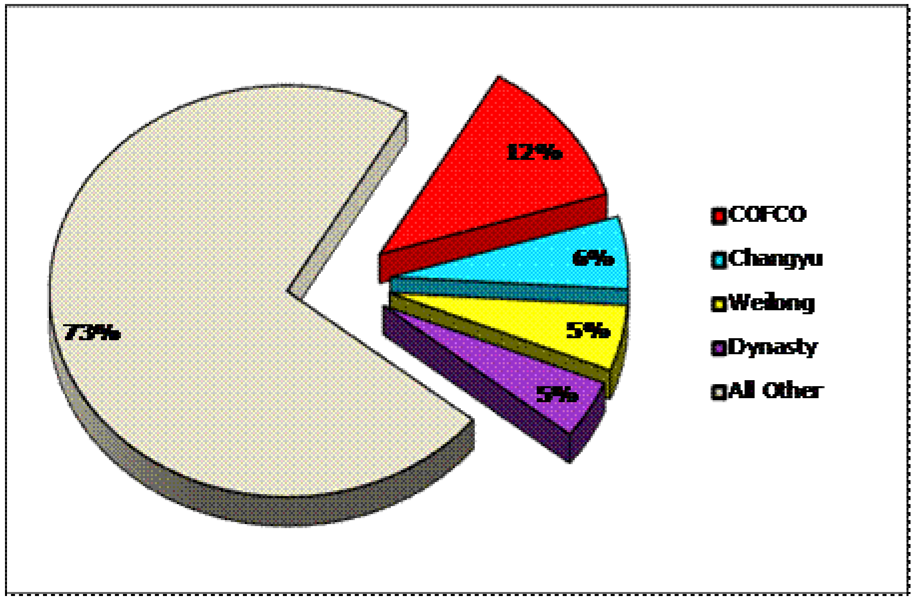
Traditional drinks – beer and grain wines – are typically served in oversized shot glasses and taken as such. Throughout the occasion, multiple toasts occur each ending with a “gan bei,” or dry cup (the equivalent of toasting “cheers”) in Chine language, and the contents consumed. Common practice for grape wine replaces the cup for a traditional wine glass, but drank in the same fashion, with just as many toasts. Further exotic customs in popular wine drinking include the mixing of ice, fruit, juice, or Sprite to dilute the taste, despite the price, vintage, or general quality that is so highly regarded in Western circles. These customs are quickly changing as consumers become better educated about wine.

C. Competition

C.1 Leading Domestic Companies

Out of China's 500 plus wineries in operation, four domestic companies control over 27 percent of the market. They are COFCO, Changyu, Weilong, and Dynasty, respectively (See Chart 5).

Chart 5: Top Wineries in China Market Share 2008



Euromonitor

Four domestic companies control over a quarter of the entire still wine market.

Table 3: Knowing the Competition Company Profiles

	COFCO	Changyu	Weilong	Dynasty
Type of Ownership	State-controlled subsidiary	Publicly Traded	Privately Owned	Publicly Traded
AAGR	19.70%	19.20%	21.60%	11.70%
Average Profit Margin 5yr	17.7% a	21.31%	NA	15.14%
Stock Exchange	Hong Kong	Shenzhen	NA	Hong Kong
Brand Ranking by Region				
East	1	2	4	3
Central	1	2	4	3
North and Northeast	1	2	5	3
Northwest	2	1	NR	NR
South	1	2	4	3
Southwest China	1	2	NR	3

Source: Euromonitor

Notes: a-Data from 2006

COFCO

COFCO Wines & Spirits Co. Ltd. is a fully owned subsidiary of China National Cereals, Oils and Foodstuffs Corporation (COFCO): China's state-owned company for food processing, manufacturing, and trading. COFCO is a diversified conglomerate listed 398th in Fortune Magazine's Global 500 index in 2008 and has five listed subsidiaries, one of which being China Foods Limited, the investment holding company controlling COFCO Wines & Spirits Co. Ltd.

COFCO corked its first wines in the early 80's, which is relatively recent compared to its leading competitor, Changyu. Its established distribution network as a foodstuffs monopoly has made it the market leader, pushing its brand Great Wall to the top ranked wine in nearly every region in China. COFCO's wine volume has grown by an AAGR of 20 percent reaching 94 million liters in 2007.   The 2006 financial data for COFCO Wines & Spirits Co Ltd. shows a profit margin of 18 percent, but China Foods Limited has a five year average net profit margin of 4 percent.

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Successful Business Practices

Great Wall wine production is headed by three wineries that prior to 2006 were partially owned subsidiaries and competed against each other for market share. Realizing the error in this business structure, COFCO Wines & Spirits bought out the remaining share holdings, integrating the three under one common label.

That same year, Great Wall was awarded sole advertising rights for the 2008 Olympic Games. Leveraging the allure of the games, the company entered the high value market by producing Olympic-themed wine and engaged in unprecedented Chinese wine promotions during the games, ultimately projecting the Great Wall name and awareness of Chinese wine worldwide.

The company's website boasts exports to 20 different countries and regions. Though tangible amounts were not provided, industry insiders say COFCO leads Chinese efforts in this regard.

In 2003, the company established a relationship with China Agricultural University, putting in place a viniculture and wine making program for higher learning. The program has acted as COFCO's main talent pool for new employees.

COFCO's own distribution network reaches all parts of China, but its wine distribution has proven imperfect. Loosely structured second-tier distribution has proven defective in placement management and the company plans to centralize control.

Beyond still grape wine, COFCO Wines & Spirits produces labels in the sparkling wine and non-grape wine categories as well. However, its market shares in the respectively small sparkling wine market and highly segmented non-grape wine market are not very significant.

Still ranked number one in still grape wine, COFCO’s market share is down 2 points from 2007. Primary sales are still in the low-end to low mid-end price bracket. However, COFCO has recently been experimenting with high end lines. Currently, there have been no talks of a spin-off option away from China Foods Limited.

Changyu

Established in 1892, Yantai Changyu Group Co. Ltd., originally Zhang Yu, was China’s first industrial winery. Now, through its subsidiary Yantai Changyu Pioneer Wine Co. Ltd., it is the second ranked company in the market controlling six percent of grape wine sales in China. Yantai Changyu Group Co. Ltd. and Yantai Changyu Pioneer Wine Co. Ltd. are generally interchangeable under the name Changyu.

Formally a state-owned enterprise with ownership from Yantai city (Shangdong Province) government, the company has since experienced a series of buyouts culminating with the 1997 listing on the Hong Kong Stock Exchange under a B share scheme, focusing on attracting foreign investment. The company made an additional A share offering in 2000, leaving the Yantai government with only a 12 percent stake in the company and the rest held by Changyu and foreign entities.

Domestic consumption volume for Changyu has grown by an AAGR of 19 percent reaching 45.1 million liters in 2007. Current financial statements for Changyu report a five year average net profit margin of 21 percent.

The 100 plus year old winery recently received international notoriety for taking the 10th position amongst the world’s top 10 largest wineries in 2007 and then 7th in 2008. Furthermore, in the recent Forbes.com list “Asia's 200 Best Under A Billion,” Yantai Changyu Group Co. Ltd. was one of only two wineries listed and the only from China. These achievements have helped solidify Changyu’s global competitiveness and name recognition.

Successful Business Practices

Reports say that Changyu is one of the largest manufacturers in China, employing 4,000 people and producing 120,000 tons of grapes annually. The company reaches outside still grape wine into the sparkling, cider, and brandy markets where it holds top billing in all three categories.

Rather than have nationwide distributors like its competitors, Changyu distributes to 29 provinces and municipalities through a vast network of distributors, wholesalers, and retailers that is well over

3,000 members strong. Such a network based on individual relationships and profits on the competitive advantage of its smaller, more specialized members, but is quite time consuming to maintain.

With its growing recognition as a world wine player, Changyu wine is becoming more focused on the mid-end to high-end products, raising production standards accordingly.

Noteworthy joint ventures have been formed with the French based Groupe Castel and Canadian based Aurora Ice Wine Co. Ltd. The gem of the Castel-Changyu joint venture is China’s first and largest wine chateau. The project offers two new aspects of the wine industry to China: wine tourism and barrel ordering. The latter is fully accessible through the company’s elaborate interactive website. The former can be expected to grow in a big way, as China’s tourism industry is mushrooming and offers for “China Wine Tours” are already popping up on websites.

The relationship between Yantai Changyu and Aurora Ice Wine has produced the world’s largest ice wine chateau. It single handedly doubled global production, cornering approximately half of the world ice wine market.

Weilong

Yantai Weilong Grape Wine Co., as the name suggests, is also located in the famous Yantai area. The privately owned company was established circa 1988 and claims distribution to 30 provinces and municipalities. Even though the company has had as high as the second market share position in recent years, there is virtually no information to be found on its business practices. What can be affirmed is that Weilong has the highest AAGR of the top four: 22 percent, and in 2007 the company had 41.3 million liters in domestic sales. Outside of still grape wine, Weilong is tied for second place for most volume sales in the China sparkling wine market. Based on Weilong’s price range placement, one can infer that they focus on low-end priced products.

Dynasty

Dynasty gift set with bottles resting in a traditional satin-like bed in a red box. It is a typical Chinese, Lunar New Year gift.

Ownership and conception history of Dynasty is far less complex than its competitors. Established in 1980 as a joint venture between Tianjin City Grape Garden and Remy Martin, the company then went public on the Hong Kong Exchange in 2005, with Remy Martin remaining as its top investor.

In past years, Dynasty had traditionally been number two in the market. However, in 2007 it experienced a slight shortfall in production growth causing it to slip to the number four spot. It currently holds 5 percent of the market. Dynasty has grown by an AAGR of 12 percent in terms of domestic production volume, with a 2007 volume of 36.5 million liters. It holds a five year average net profit margin of 15 percent.

Successful Business Practices

To offset recent production shortfalls, Dynasty has entered into a relationship with an Australian wine company that relies on Australia's complementary growing season.

Over the years, the company has actively purchased imported oak barrels to improve production quality. In recent months it has positioned itself to acquire inexpensive, high quality oak barrels to further advance quality production, while maintaining minimal expenditures.

Focus on quality production has been a part of Dynasty's business plan since its inception, with strong guidance from Remy Martin. Dynasty focuses on premium products and has traditionally been the staple drink served at state banquets and Chinese embassies world-wide.

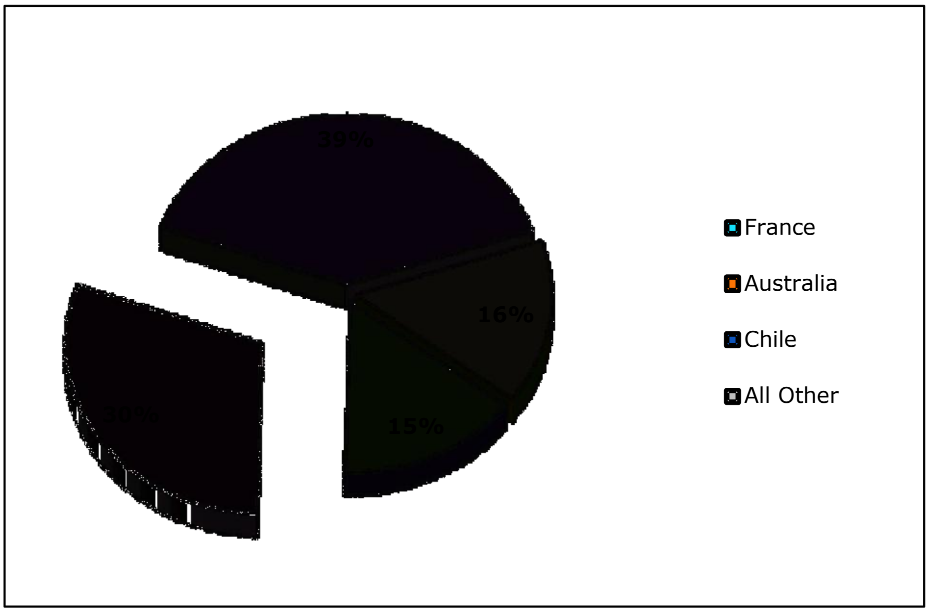
While focus is on quality, the company has products placed across the price spectrum. To ship these products, Dynasty enlists national distributors to reach all provinces, autonomous regions, municipalities, and special administrative regions governed by China. Despite its recent drop in standings, Dynasty remains a name most associated with quality Chinese wine.

Lingering Industry Past

As astonishing as these domestic industry accomplishments might be, Chinese producers are still plagued by past practices and food safety scares. The most recent occurrence was in late 2008 during the melamine in infant milk formula scandal when reports circulated that Chinese wine contained carcinogens. Changyu, along with Great Wall producer COFCO, were forced to fend off the reports. Bad press is not uncommon for producers worldwide. However, China has a history of lack enforcement and subsequent cover-ups of food and product safety irregularities, which the public is reluctant to forget and ignore.

C.2 Leading Importing Countries

Chart 6: Top Wine Importers to China Market Share 2008



Euromonitor

Nearly three-fourths of wine imports into China come from three nations. France remains the prevailing supplier.

Three countries, France, Australia and Chile, control over 70 percent of the market for imported wines (See Chart 6). Differing greatly in terms of entry time, products, and strategy, France, Australia, and Chile reach common ground on market dominance and strong promotional activities. Commitment, creativity, sound marketing strategies, and structured support programs fuel the top three's continued growth.

France

Through a Sino-French joint venture, France entered the market in 1980 with the creation of Dynasty. Direct wine imports from France soon followed and flourished virtually unchallenged until 1997 when the first notable amounts of other foreign wine began to enter the market. Despite the presence of competition, French wine continues to dominate the market, holding 39 percent of the imported wine share and growing 50 percent in value from 2007.

French wines primarily enter the market through the ports listed in Table 4. Although French product disproportionately enters through Eastern China, North and South China are still represented in the top three.

Even with the clear lead French companies remain active, engaging in new joint ventures – notably Castel-Changyu – trade missions, and actively promoting its products through trade organizations. France's primary trade organization is the private, for-profit company Sopexa, which has three offices in Mainland China as well as Hong Kong and Taiwan.

Although Sopexa does not receive funding from the French government for non-government agency events, the company has a standing account with the French Forestry and Agriculture Office, working on various promotions. It has a full official marketing program in China.

Table 4: France Wine Exports to China Top Ten Ports

Rank	Port	Value USD mn	Share %
1	Shanghai	83	56
2	Guangzhou	12	8
3	Tianjin	9	6
4	Qingdao	8	5
5	Huangpu	7	5
6	Shenzhen	7	5
7	Beijing	6	4
8	Xiamen	6	4
9	Hangzhou	3	2
10	Fuzhou	2	1

Source: World Trade Atlas

Sopexa orchestrates an array of promotional activities including wine tastings, promotional events, and trade shows. In 2007, Sopexa held a successful wine tasting series in Beijing, Shanghai, and Guangzhou, which represented close to 100 wineries and entertained nearly 3,000 guests. Currently, as part of its program "French Weeks," Sopexa holds weeklong promotional events in hypermarkets (usually Carrefour) across the country.

In 2009 alone, in addition to Sopexa's involvement in Vinexpo (Vine Expo), SIAL China (largest show for retail goods in China), and FHC (Food and Hotel China Shanghai), the company has prepared numerous other trade shows including: Mini Expo Shows, The French Wines Trade Show, and the Aperitifs Promotion. Its Mini Expos run for 24 hours, set to take place in Beijing, Shanghai, Hong Kong, and Taipei. The French Wines Trade Show of July 2009 will be held in Beijing, Qingdao, Shanghai, Shenzhen, and Hong Kong. In correlation to the show, French wines will be on sale in restaurants during the period. Finally, the Aperitifs Promotions in China will involve five restaurants in Beijing.

Australia

Having only become a major player in China in 2002, Australia's position has fluctuated over the years. The country currently sits at number two in market share, with 16 percent of the import market, up 31 percent in value over 2007. Recently new to the market, Australia made its presence known through creative promotions and branding. Already having success with "critter brands" in the United States, the marketing scheme has been a success in China as well. Like France, most product moves through the Eastern China port of Shanghai, though all regions are represented in the top ten. It is worth noting that Australia's wine is more evenly distributed amongst the ports (See Table 5).

Table 5: Australia Wine Exports to China Top Ten Ports

Rank	Port	Value USD mn	Share %
1	Shanghai	24	40
2	Guangzhou	6	10
3	Huangpu	5	9
4	Qingdao	4	7
5	Nanjing	3	5
6	Shenzhen	3	5
7	Xiamen	2	4
8	Tianjin	2	3
9	Beijing	2	3
10	Hangzhou	2	3

Source: World Trade Atlas

Austrade is a government agency that supports Australian exports. The organization has 15 offices in China and is federally funded.

After its success in 2008, "A Taste of Australia" is set to encore in 2009. The trade event will be held in the Southern cities of Chongqing, Kunming, Xiamen, Guangzhou, and Sanya. The series is meant to correlate with the largest wine tasting ever hosted by the Australian Consulate General in Shanghai, which took place during the drafting of this report.

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Perhaps Austrade's most important program is the one designed to help Australian exporters themselves. In addition to market analysis and logistic support, the program offers a step-by-step guide to entering the China market which includes checkpoints to ensure a company is ready to proceed. Furthermore, the organization offers financial assistance up to 50 percent of expenditures over a set threshold.

Additional activities include sponsoring trade missions for Chinese traders to travel to Australia and current trade talks of a free trade agreement.

Outside Austrade sponsored activities, books specifically geared to promote Australian wines to Chinese consumers have recently been hitting the shelves. The most notable was written by Jeremy Oliver and is featured to the left. Such books provide detailed tasting notes and suggestions on how to enjoy Australia's leading labels.

Chile

From being a relatively unknown country in China, Chile now faces a situation unique to top wine market players. Through frequent and elaborate promotional activities, Chile has captured 15 percent of the market, securing its position as number three. The value of its share is up 23 percent from 2007.

Due to Chile's bulk wine focus, it mainly ships to North China where the majority of domestic wineries that use Chilean wine to facilitate blending are located. In order to minimize shipment time, Chile makes use of a wide range of ports strategically located near product end users (See Table 6).

In 2006, Chile entered a free trade agreement with China. For wine, tariff rates drop by 1.4 percent per year and will reach zero in 2015. The import tax is 8.4 percent as of 2009 (for other countries, the tax is 14 percent).

Table 6: Chile Wine Exports to China Top Ten Ports

Rank	Port	Value USD mn	Share %
1	Tianjin	17	29
2	Shijiazhuang	14	24
3	Qingdao	12	21
4	Shanghai	8	14
5	Beijing	2	3
6	Guangzhou	2	3
7	Shenzhen	1	2
8	Xiamen	0.4	1
9	Fuzhou	0.3	1
10	Gongbei	0.2	0.4

Source: World Trade Atlas

In addition to wine, Chile promotional activities have needed to promote the country itself. Through the government agency Pro Chile, efforts to spread the countries image throughout China have proven successful. Touting the slogan "Chile: All Ways Surprising," the agency has engaged in self-described "waves of promotion." Ongoing events include "Chile Weeks," where weeklong promotional events inform the public about both Chile's products and culture. Activities include dancing, art, and music. Venues in Shanghai have been a large mall in Pudong and the Shanghai Art Museum.

Recent sponsorship of a Chinese coalition to Chile culminated in the book Wines From Paradise: Chilean Wines, written by esteemed Chinese wine critic, Susie Wu (featured right). Other government sponsored trips to Chile included a wedding travel package awarded to a

Chinese couple. The trip followed the "All Things Surprising" theme and was featured on two television shows.

Pro Chile's "Sister Cities" program is intended to match specific Chilean and Chinese cities that match well for imports while putting a face to the country. The "Chile: A close partner" program is set to focus on central and southwest China, where the agency believes market opportunity exists. These tailored programs have been widely accepted by Chinese businesses and consumers.

D. Regional Reports

As seen in the table below, market sizes vary vastly across the different regions of China. The largest regions are East and North/Northeast China. Having the largest market volume and a slightly smaller population, the North/Northeast region holds the highest per capita consumption, just topping that of the South. The Northwest has a non-alcohol-drinking population majority, which explains why per capita consumption is well below the national average.

Table 8: China Regional Snapshot

	Population mn People	Gross Domestic Production USD Billions	Total Wine Market Size USD Billions	Total Wine Market Size mn L	Off-Trade Volume mn L	On-Trade Volume mn L	Per Capita Consumption L
East	296	1,184	2.3	249	39%	61%	0.8
Central	278	512	0.8	132	61%	39%	0.5
North/ Northeast	239	752	2.0	276	46%	54%	1.2
Northwest	122	256	0.1	27	62%	38%	0.2
South	177	625	1.5	191	50%	50%	1.1
Southwest	212	295	0.4	65	62%	38%	0.3

Source: *Euromonitor and China Statistical Yearbook*

While the North/Northeast region is the largest by volume, East China is the largest by value, holding a retail value of $2.3 billion. Consumption in the Northern regions is comprised predominately of domestic product whereas the East consumes much more imported wines.

Beyond the wine sector, the East and North/Northeast China have the largest gross regional production, accounting for over 53 percent of the country's gross domestic product. Not surprisingly, the two regions contain China's two largest metropolitan cities: Shanghai and Beijing.

The even larger disparity in the on- and off-trade figures between regions is telling of the difference in market maturity levels. Whereas the two largest markets favor on-trade purchases, the remaining (other than South China) dramatically favor off-trade purchases. In the latter grouping, such a displayed preference may suggest that market demand remains driven by gift purchases. In the case of the markets that favor the on-trade sector, the data implies that entertainment is the driving force behind demand. South China is seemingly in a transition state of market maturity.

Cities of Interest

Table 9 provides an overview of cities that hold particular importance to the wine sector. Each city has been identified by its regional Agricultural Trade Office as a current or potential primary market for wine. Respective offices can provide more detailed information on each city upon request. Please refer to Section V of this report for office contact information.

Table 9: Cities of Interest At a Glance

Region and City	Population Millions	Gross Domestic Product USD billions	Per Capita Disposable Income USD
Northern Region			
Beijing	17	154	5,075
Tianjin	12	93	2,848
Qingdao	8	65	2,991
Dalian	6	46	2,215
Harbin	10	42	2,139
Southern Region			
Guangzhou	10	18	3,304
Shenzhen	9	17	4,940
Zhuhai	1	2	3,017
Dongguan	7	8	4,148
Xiamen	2	3	3,522
Changsha	6	6	2,375
Sanya	1	0.29	1,981
Eastern Region			
Shanghai	19	201	3,898
Hangzhou	8	70	3,523
Ningbo	6	58	3,698
Wuhan	8	58	2,450
Nanjing	8	55	3,244
Western Region			
Chendu	13	57	2,476
Chongqing	32	61	2,017
Kunming	6	23	2,123

Source: China Statistical Yearbook

North China Market Pulse as Reported by ATO Beijing

Distribution channels in North China are well developed in the East, interlinking most coastal and second-tier cities. As products venture west, channels become heavily segmented with large gaps. In addition to port cities in the region, wine is commonly shipped to Shanghai and trucked to Northern cities. The size and convenience of the port makes this option viable.

Two of the primary grape-growing regions are located in Northern China (Hebei and Xinjiang provinces) and another key region, Shandong province, bordering the region. Additionally, all major domestic wineries are located within the area. The strong presence of domestic production encourages both the wine culture and a sense of wine nationalism, creating a highly brand loyal environment. Beyond loyalty to domestic labels, loyalty to sweetened domestic taste increases the practice of supplementing imported wines with cola and juice. North China remains the largest regional market for wine.

South China Market Pulse as Reported by ATO Guangzhou

Established and well developed distribution channels move product throughout South China and the Pearl River Delta. Movement is typically by truck reaching into West and Southwest Regions. Grey channel trade continues to play a major role in the regional market. Although inexpensive grey channel products can reach as far as Shanghai or Beijing, its primary area of supply is the Pearl River Delta, making its influence unique to South China. Grey channel trade will be discussed at greater length in Section II.B of this report.

South China consumers are more apt to try new products due to long exposure to Western culture. South China's proximity to the former British colony of Hong Kong has provided consumers access to Western products and lifestyle. This long-lasting connection with the West makes consumers in South China more willing to pay a premium for high quality imported wines.

East and Central China Market Pulse as Reported by ATO Shanghai

Shanghai port is the largest port for imported wine and serves as the gateway to East and Central China. The distribution network stemming from East China ports of Shanghai and Ningbo supplies all of the East and Central region as well as spilling into both the Northern and Southern regions. Leading distributors have channels interlinking first-tier cities and subcontract distribution into second- and third-tier cities. Although there are no apparent gaps in coverage, temperature controlled distribution deteriorates the farther away it moves from the Shanghai metropolitan area.

Combined, Jiangsu and Zhejiang provinces and Shanghai municipality is the most affluent region in China with both the largest gross and disposable incomes per capita. However, as the long-standing wine market epicenter, Shanghai has become saturated with specialty wine shops and wine tastings in some neighborhoods to the point that at least the latter has lost its ability to draw in new crowds. Still, East China remains at the forefront of the growing wine culture.

Southwest China Market Pulse as Reported by ATO Chengdu

As an emerging market region, Southwest China's distribution channel is immature and has room for improvement. Local distributors often do not carry adequate stocks of product and therefore cannot guarantee timely distribution of a particular label. Agents vary in their ability to handle foreign product and reliability. Furthermore, many of the existing cold chain storage facilities in Southwest China are older and lack sufficient moisture and temperature controls to consistently maintain product quality.

As an increasingly larger destination for tourism and foreign investment, Southwest China has the largest potential for growth in the wine sector. In 2007, tourism revenue grew close to 25 percent in the region, whereas revenue from the hotel and catering industry grew close to 30 percent. For the time being, the young regional market will continue to be a highly price sensitive market.

Section II. Market Entry and Promotion

A. Marketing

A.1 SWOT Analysis

Strengths

China's per capita GDP and population continue to grow as do disposable incomes.

The Chinese are developing a sophisticated taste for wine.

The Chinese government has promoted wine over other higher alcohol containing spirits for use in official functions.

Imported wine has a positive image as a high-quality, healthy alternative to domestically produced wines and makes an excellent gift.

China's one-child policy has left a large demographic of only children, with greater disposable incomes receptive to individual taste preferences.

Weaknesses

Import procedures for new brands and vintages are often lengthy and arbitrary. New items need up to four months to clear, so advance planning is crucial for trade shows and wine tastings.

Wine education is still in its infancy. Few consumers know the value of imported wines.

Long-term commitment and personal contacts are necessary to achieve success. France has marketed its wines heavily for over ten years.

Importers face a high import tax, making them less competitive with domestic wines.

Exporting Wine to China

Opportunities

Second tier and third tier cities are a large and relatively untapped market.

Marketing in mid- to high-end chain restaurants is a good way to develop brand awareness and mass-market sales.

Distributors and retailers are developing an online presence and increasingly offering online sales.

Bottling in China is a cheaper alternative to shipping in bottles, and wineries can still keep their foreign brand name.

As knowledge about wine improves, more new specialty stores offer many high-end wines.

Threats

Many established and newly established competitors (France, Australia, Chile, Spain) could threaten U.S. potential market share.

The Chinese government will enforce labeling requirements more strictly in the future.

Counterfeiting and IPR violations continue to be a problem in all industries. Counterfeit wines could lower sales and damage reputations for brands.

Improving quality of domestic wine make them more competitive domestically and abroad.

A.2 Keys to Success

The most important key to a successful export strategy to China is establishing a long term commitment to building personal relationships. U.S. agricultural exporters will be left disappointed if their only contact with Chinese counterparts is when it is time to make a sale. This is especially true in the wine sector, where active promotions and distributor relationships – the most important of relationships – can make or break a wine's chances of success.

Many exporters make the faulty assumption that China is one market of over 1.3 billion consumers. Chinese are vastly diverse among regions and social strata, making wine marketing the process of finding the right niche. Nationwide distribution success stories tend to come after labels build upon their entry level niche, putting in the ground work and face to face time creating and developing their market.

Importers and distributors act more or less as the gatekeepers to the market. The point cannot be stressed enough that the relationship with them is quintessential and directly correlated to success in China. Agricultural Trade Offices in China can provide importer/distributor contact information in their coverage area and Appendix A gives criteria for selecting and evaluating distributors based on pragmatic market experience. After identifying a distributor, it is important to have a business agreement that specifically addresses each party's involvement in the marketing plans and goals.

Once buyers have been pinpointed, establishing relationships with them will be the building blocks for a sustainable business. Good buyers come in all sizes; at the same trade show one could meet a buyer from Hangzhou or a central Asian buyer from a multinational retail chain. Where the larger may have a further reaching distribution network, the smaller may be better suited to fit a tailored marketing strategy. In either instance, the more personal of a relationship the buyer feels with the seller, the buyer is more apt to continue promoting the product to consumers. GAIN report CH6820 demonstrates the basics of the Chinese business culture to assist first time exporters to China start off on the right foot.

A.3 Promoting Wine in "Gan Bei" Culture

Shakespeare said, "Good wine needs no bush," however, in China, it does. When a brand enters the China market the brand is essentially starting over. Success in the outside world will help build prestige as a premier wine later on, but the initial steps will be on developing an effective branding campaign and building brand image to consumers just as it is done in the United States with just as much time and effort. The average Chinese consumer is not only unaware of the label, they are skeptical of foreign products at first sight.

Branding wine as a quality, sophisticated wine is an essential start. Just as in business relationships, sustained long term promotion is the best way to develop a market. Essentially, through marketing and promotional campaigning, exporters should strive to develop a relationship with new consumers. After the market has been identified, promoting to this group becomes much easier.

Trade shows and trade missions are a good way for exporters to get their feet wet before promoting wine dinners or wine culture education programs. Appendix E explains the process of sending samples.

As for a specific promotional strategy, ATO Shanghai would suggest U.S. states and regions ban together to promote their image. The initial promotional push of country of origin and growth region has proven to be widely accepted by Chinese consumers. Only after the consumer base is educated and convinced of the superiority of a wine's origin and quality are individual brands fully able to compete. Furthermore, grape growing regions in the United States are fewer and can be named as compared to those in Europe. Though seemly insignificant, in China, consumers say Lafite's awe-inspiring popularity is due to its easy pronunciation and natural conversion to Chinese.

One would be hard-pressed to find a commodity with a more positive image in China than wine, which is associated with sophisticated western culture, the social elite, and good health. In terms of agriculture production, the United States has been seen as a reliable supplier of high quality goods. The goal is to marry these two attributes to demonstrate that American wine is also renowned throughout the world.

Intellectual Property Rights (IPR)

Throughout China, IPR infringement threatens the reliability and confidence in U.S. agricultural products. Domestic and third-country products labeled as U.S. goods not only take away from U.S. market share, but threaten the image of safety and quality of U.S. goods. American wine can potentially come under attack in four ways:

1. "Stickering" – IPR pirates sticker domestic goods under the guise of seemingly official U.S.A., specific state, or government approval insignias.
2. Bootlegs – Replicas simulating the appearance in both bottle and label of particular brands are filled with domestic product.
3. Mixing – U.S. wines are essentially "watered" down with domestic product to increase volume. This can occur in correlation with bootlegging.
4. "Squatters" – In China, the first entity to register a particular patent, copyright, or trademark has exclusive rights irrespective of registration in other countries. Some local profiteers have begun to register international brands for themselves in anticipation that these companies will one day come to China and be forced to purchase usage rights.

Protecting intellectual property is a critical part of doing business in China. Avoiding infringement requires geographical indicators, food labels, patents, copyrights, and trademarks to be properly registered in the United States and with the relevant Chinese registration office.

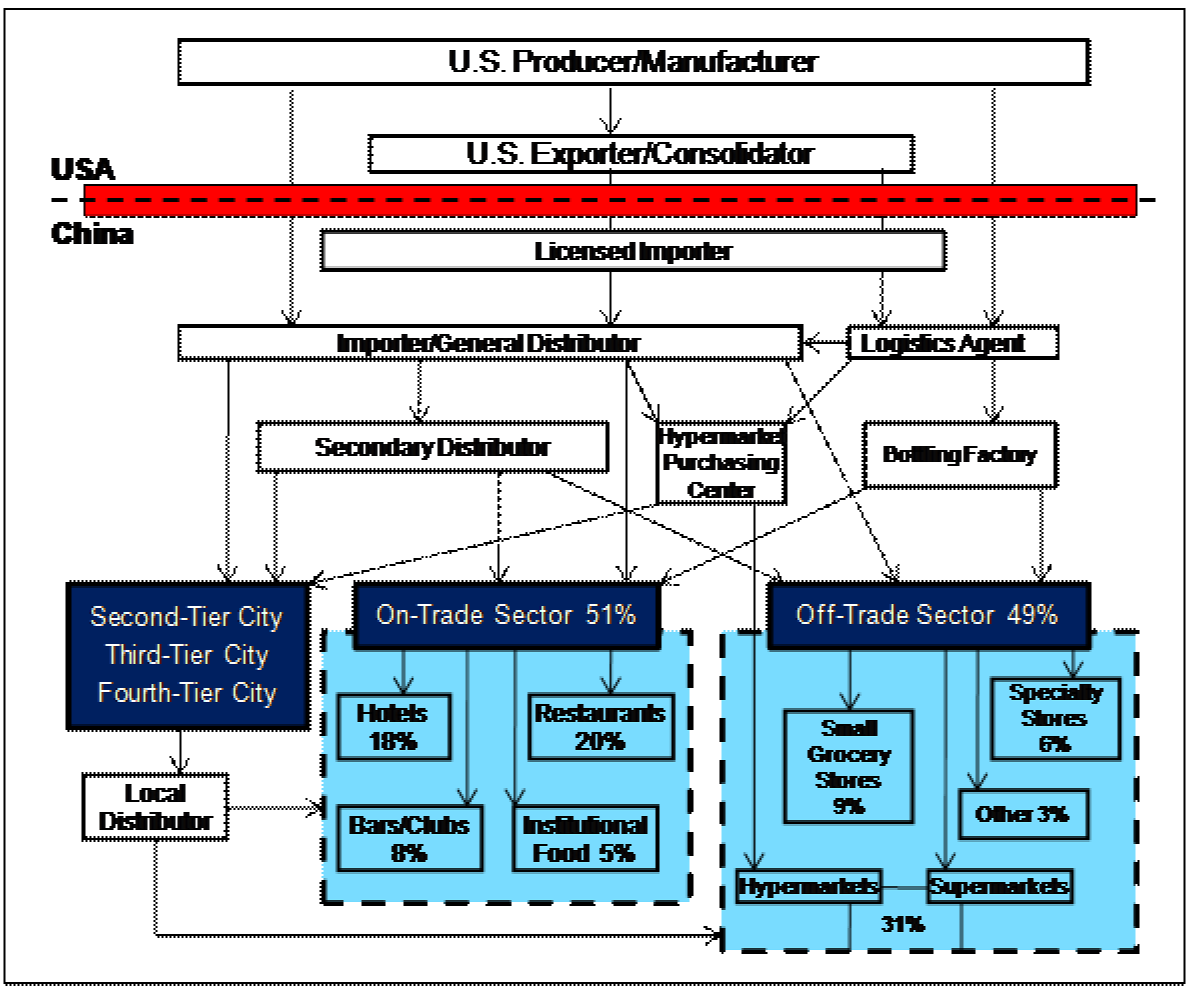
The FAS IPR office located in Beijing can assist U.S. producers in protecting their brands and intellectual property rights. Contact information is provided in Section V. Other sources of information include the following:

- GAIN Reports CH7023, CH7027, CH7028, CH7035, CH7046, and CH9025, are all available in the FAS website: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp
- The U.S. Embassy's China IPR toolkit: http://beijing.usembassy-china.org.cn/protecting_ipr.html

B. Distribution Channels

As with all agricultural goods exported to China, distribution to end users becomes increasingly difficult the further away end users are from major coastal cities. The cold chain is segmented with large gaps and the business dealings with multiple parties are intricate, making it ever more important to select a quality distributor. Presently, many of the largest wine distributors are not open to carrying new labels.

Figure 1: Wine Distribution Channel Flow Chart



Source: ATO Shanghai Research / Euromonitor

Trucking serves as the main medium of distribution, however, many trucks are either without temperature control or improperly operated. The extreme temperatures of the summer and winter months have been known to affect the quality of products and have forced some distributors to forego shipping during the period. Operating supply chains generally follow the Figure 1 flowchart.

As illustrated in the chart above, on-trade consumption of wine overtook off-trade by the same small margin as in the past: 51 and 49 percent, respectively, in 2008.
A continual growth in both categories speaks well for the industry and is a strong indicator that the wine culture is taking root evenly. Still, the on-trade sector has grown faster than off-trade in recent years; 21 percent against off-trade's 17 percent. The data is representative of the overall market gradually shifting towards entertainment as the primary industry driving force. As the market matures it can be expected that the off-trade sector will overtake the on-trade sector in growth and importance, as it will be more representative of home consumption, but as it stands now off-trade purchases are primarily used as gifts.

On-trade venues of value for wine trade nationwide include stand-alone restaurants, hotel restaurants, and chains all in the high-end category. However, practices vary widely amongst high-end restaurants leaving some outlets more open than others. Out of the restaurants interviewed by the ATO, the number of distributers ranged between one and fifteen, with a higher frequency of set wine lists amongst those with fewer suppliers. Common aspects of set wine lists include a listing charge and selections made by the distributor. A commonality occurring in restaurants with more suppliers is the search for boutique wines to offer their gradually more knowledgeable clientele. For high-value wine, some restaurants opt to carry these labels on consignment. However, interviewed sommeliers were quick to note the practice is enforced by the financial department and did not represent the restaurants opinion on the wine's marketability. For more information on the HRI sector, please refer to GAIN Report CH9403.

The off-trade sector has recently seen greater numbers of international hypermarkets, which are a prime location for international wines. Similar to the listing charge in the on-trade sector, most supermarkets and hypermarkets have a shelving charge that varies in size. The practice of having a promoter present in the wine isle is widespread. The person, generally a young girl, is usually not knowledgeable about wine attributes, and is typically paid by a specific vendor or distributor and often told to promote certain labels or offer suggestions based on price. The upside is that any distributor can hire an in-store promoter provided they pay a management fee. Another booming trend in the retail sector is the opening of specialty wine shops, which offer educational classes, tastings, and unbiased opinions. For more information on the retail food sector and specialty wine shops, please refer to GAIN Reports CH8816 and CH8802.

The Gray Channel

The gray channel is the illegal supply chain for goods generally sourced out of Hong Kong into Mainland China. There are two modes in which goods enter the Mainland illegally. The first method is through under-valuing invoices and entering by means of port connections. Such relations vary from friends or family to implicit under-the-table business arrangements. The second method is the physical act of sneaking the product over the border and foregoing customs and duty payment altogether.

Gray channel products traditionally only source to South China, though product has been known to reach all parts of the country. Reports from the South have noted that Hong Kong's 2008 tax cut on wine imports has amped up gray channel activity, which had been waning prior.

Along with legal implications, the use of such channels seriously hinders the prospects of longevity in the market. Involvement in would-be scandals could also be detrimental to brand image. Gray channel trading is a highly unreliable way to import goods into Mainland China.

C. Entry Methods

The first step is the same for everyone: exporting food and agriculture products to China (see **Appendix E** for details). After that, entry plans vastly vary. The ATO Shanghai suggests exporters vet potential distributors and importers thoroughly and afterwards work closely with them to determine the proper route into the market. For a product as dissimilar as wine, and for a market as large and diverse as China, there is an array of niches to fill and channels to fill them.

Some market-tested approaches involve exporters starting in the top markets: going straight for first-tier cities like Beijing, Shanghai, and Guangzhou. Beyond the benefits of having larger populations and higher disposable incomes, the ability to easily ship into these cities has allowed some companies a central location to begin shipping to lower tiered cities in the surrounding areas. Others have elected to work their way up from second, third, and even fourth-tier markets. From these cities they are able to expand freely in less densely competitive markets, while bringing in revenue and building brand image. Within all tiered markets, the initial focus on institutional sales to the governments or businesses as well as on high-end HRI and entertainment has proven successful for most.

In the past few years, there has been mounting interest from foreign wineries in entertaining joint venture agreements with companies in China. Some companies have begun shipping wine in bulk to China and bottling domestically to reduce costs and become more price-competitive. Early investors have found a niche and have done well with this practice, whereas others have failed. Some experts warn that although this helps alleviate price pressures, it may also detract from the intrinsic value of imported wine and may not be suitable for all producers.

A new avenue for entering the market makes use of bonded areas in major Chinese ports. Companies are opening large warehouses tailor-made for wine storage and are contracting import agent services, showroom space, storage, and sample delivery, all of which is duty free due to the nature of the bonded area. These services allow labels to control their distribution channels and inventory with increased efficiency, while postponing customs duties until the product leaves the bonded area. The value this medium of entry contributes to the market has yet to be determined. Although the concept is appealing, the bonded areas are far from the city center.

D. ATO Marketing Assistance

Introducing a foreign wine and creating a brand that suits Chinese consumers takes commitment and a targeted marketing strategy. All Agricultural Trade Offices in China provide country market information, market development support, and a wide variety of activities designed to strengthen distribution channels for U.S. agricultural products. ATOs are an excellent resource for winemakers and exporters who are interested in the China market.

ATOs work with cooperators, including the California Wine Institute (CWI) and the Napa Valley Vintners Association, as well as all four State Regional Trade Groups (SRTGs) to promote U.S. wine. Events such as wine tastings for trade professionals, wine dinners, and trade shows are typical ways to introduce wines to hotel and restaurant procurement managers and distributors. Establishing a brand is a long-term process and must be properly focused for meaningful results. ATOs will work with new to the market wineries and exporters that wish to have custom programs to test market their wines with distributors.

ATO’s large umbrella events for U.S. products, such as restaurant and retail store activities and the multi-product Chinese Lunar New Year promotion in mid-winter, are good places to begin to increase market awareness directly among end users. Those who would like first-hand experience on the China market are encouraged to visit or join a trade mission organized by an SRTG. **Appendix D** has a brief description of the services provided by the SRTGs and how to contact them.

United States Pavilion at the 2009 SIAL China trade show.

Market Access Program (MAP)

The Market Access Program (MAP) uses funds from the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) to aid in the creation,

expansion, and maintenance of foreign markets for U.S. agricultural products. The MAP is administered by the USDA's Foreign Agricultural Service (FAS).
The MAP forms a partnership between non-profit U.S. agricultural trade associations such as the California Wine Institute and NW Wine Coalition, non-profit State Regional Trade Groups (SRTGs), small U.S. businesses, and USDA's Commodity Credit Corporation to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing. For more information on the MAP, please refer to the FAS USDA website at http://www.fas.usda.gov/mos/programs/map.asp. For more information on SRTGs and U.S. agricultural cooperative contact information, reference **Appendix D**.

Section III. Regulations and Taxes

Imported wines are subject to specific chemical standards and labeling regulations under Chinese law. Familiarity with these regulations are particularly important because they differ slightly from international standards, e.g. “dry wine” by international standards may not be allowed to be labeled as such under Chinese regulations. This example is specifically worth noting due to the high consumer appeal for wines labeled “dry.”

The total duty paid on wine is calculated using a compounding formula that involves all three taxes, as opposed to simply adding the rates together. The three rates are the consumption tax, the value added tax (VAT), and the import tax. For bottled wine, total duties equate to 48.2 percent; for bulk wine duties are 56 percent. Additional information on import duty and tax calculation can be found in **Appendix C**.

Chemical standards must adhere to the Chinese law GB15037-2005. Labeling requirements are outlined in the laws GB7718-2004 and GB10344. More on regulations can be found in **Appendix B**.

In practice, the degree of enforcement and specific benchmarks may differ from the written regulations. ATO Shanghai advises U.S. exporters to allow Chinese importers to coordinate customs and other regulatory requirements.

Section IV. Conclusion

Many exporters make the faulty assumption that China is an import market of over 1.3 billion consumers. However, niche markets in key regions are to reality. Price sensitivity and import wariness requires the consumer base to be educated and convinced of the superiority of a wine’s origin and quality before the label hopes to compete. Once affirmed of a wine’s quality, price sensitivity gives way to brand loyalty.

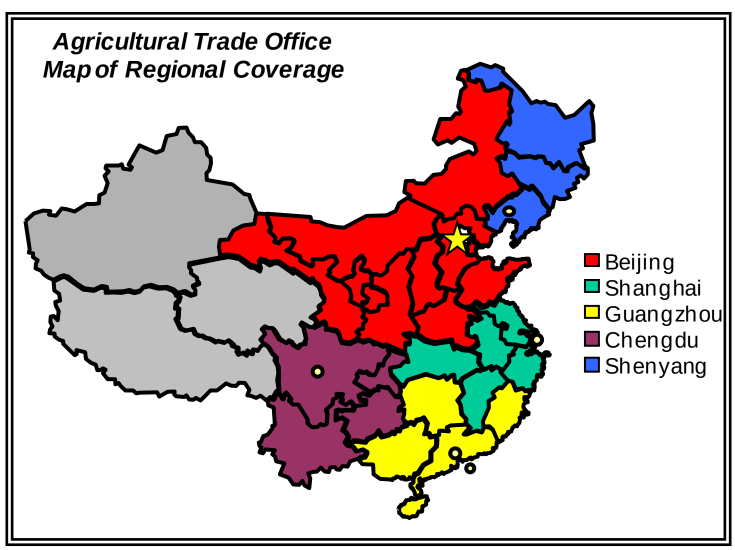
Active promotion and sturdy supply chains have proven effective for leading domestic companies and importing countries. In addition, current import leaders have developed strong at-home export programs that coordinate a united marketing strategy geared towards China.

In spite of the United States' leading competitors' head start, the growing China market is a good opportunity for U.S. wines. Establishing an association of the United States as a premium wine producer in consumers minds remains the key obstacle for U.S. exporters to develop the market.

Section V. Post Contact Information

For further information about the China market, as well as updates on our upcoming events and activities, please visit our website at www.usdachina.org or contact one of USDA's six offices in China:

Agricultural Affairs Office, Beijing No. 55, An Jia Lou Lu Chaoyang District, Beijing, China 100600 Phone: (8610) 8531-3600 Fax: (8610) 8531-3636 E-mail: agbeijing@fas.usda.gov	**Agricultural Trade Office, Chengdu** 1222 Western Tower, No. 19, 4th Section, Renmin Nan Road, Chengdu, 610041 China Phone: (8628) 8526 8668 Fax: (8628) 8526 8118 E-mail: atochengdu@fas.usda.gov
Agricultural Trade Office, Beijing No. 55, An Jia Lou Lu Chaoyang District, Beijing, China 100600 Phone: (8610) 8531-3950 Fax: (8610) 8531-3050 E-mail: atobeijing@fas.usda.gov IPR Office Email: chinaipr@fas.usda.gov	**Agricultural Trade Office, Shanghai** Shanghai Center, Suite 331 1376 Nanjing West Road Shanghai 20040, China Phone: (8621) 6279-8622 Fax: (8621) 6279-8336 E-mail: atoshanghai@fas.usda.gov
Agricultural Trade Office, Guangzhou China Hotel Office Tower, 14/F Guangzhou 510015, China Phone: (8620) 8667-7553 Fax: (8620) 8666-0703 Email: atoguangzhou@fas.usda.gov	**Agricultural Trade Office, Shenyang** Shenyang, China Phone: (86-24)23221198 Fax: (86-24)23221733 E-mail: atoshenyang@fas.usda.gov



Appendix A
Criteria for Selection of Distributors/Wholesalers

Distributor/Wholesaler Related:

- Does the distributor/wholesaler have the necessary facilities and trade connections to open and maintain accounts?
- Can the distributor/wholesaler provide the services to ensure satisfied customers and the distribution and service level expected to achieve our sales and distribution objectives.
- Sales power (sales reps., vehicles (air-conditioned/refrigerated), number of outlets covered, visit frequency, etc.)
- Storage facilities – Refrigerated/Temperature and Humidity Control
- Delivery ability
- Financial strength
- Attitude

The distributor/wholesaler must be willing to invest in vehicles, sales force and proper storage facilities and they must follow the established system / rules rigidly.

Basic Requirements for Wholesalers

Information Systems

The following basic sales information has to be available in order to support the operation of the business in general and the sales figures related to off-take per outlet are of specific interest in relation to managing the distributors/wholesalers:

- Daily Sales per Sales Representative per Product Category;
- Month To Date (MTD) Sales per Sales Representative per Product Category Vs Target;
- Daily Sales per Key Customer / Customer Group per Product Category;
- MTD Sales per Key Customer / Customer Group per Product Category Vs Target;
- Year To Date (YTD) Sales per Key Customer / Customer Group per Product Category;
- Monthly, YTD and Moving Annual Total (MAT) sales per stock keeping unit;
- Number of visit and Number of orders per Day per Sales Representative;
- Monthly and Annual Sales data per Customer / Outlet.

Motivation of distributors/wholesalers should be built:

- Training, guidance and direction
- Market servicing
- Performance against targets
- Opportunities, problem solving

- Sales force coverage and quality
- Volume rebate
- New outlet incentive
- New product incentive (achievement of product-mix objectives)
- Additional distribution point incentive
- Year-end award

Key Result Areas Used for Evaluating Distributors/Wholesalers are

- Distribution penetration / Coverage
- Volume achievement
- Accuracy and timeliness in reporting / Communication
- Stock level in warehouse
- Account / Channel / Territories management
- Delivery performance
- Handling of market returns
- Investments in modernizing facilities / Equipment / Information systems

Appendix B
Standards, Laws, and Regulations

Chemical Standards

Physical and Chemical Indicators[a]	Minimum	Maximum
Alcohol content[b] (20°C)/(%)	7	
Sugar-free extract (g/L)		
White wines	16	
Rosé wines	17	
Red wines	18	
Volatile Acid (measured by acetic) /		1
Citric acid / (g/L)		
Dry, semi-dry and semi-sweet wines		1
Sweet wines		2
Total sulfur dioxide / (mg/L)		
Dry wines		200
Other types of wines		250
Iron / (mg/L)		8
Copper / (mg/L)		1
Methanol / (mg/L)		
White and rosé wines		150
Red wines		300
Lead (Pb) / (mg/L)		0.2
Benzoic acid or sodium formate		50
Sorbic acid or potassium sorbate		200
	Container	**Range**
Carbon dioxide (20°C)		
Low sparkling wines	<	7.25-43.5
	≥	7.25-49.31
Sparkling wines	<	≥ 43.51 (psi)
	≥	≥ 49.31 (psi)

Notes:

a. no requirement is imposed on total acid, which is measured to its

b. The indicated value and actually measured value of alcohol should not

Source: The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ)

Labeling Regulations

Labeling Quick Reference

	Mandatory Items	Minimum Height	Position
A.	Name/Brand	1.8mm	Undefined
B.	Product Type[1]	1.8mm	Adjacent to Name/Brand
C.	Ingredients	1.8mm	Undefined
D.	Alcohol content (%)	1.8mm	Undefined
E.	Must content[2] (%)	1.8mm	Undefined
F.	Packer/distributor/importer (Name and address)	1.8mm	Undefined
G.	Bottling date (yyyy/mm/dd)	1.8mm	Undefined, but position must be made apparent
H.	Quality guarantee or storage period[3] (yyyy/mm/dd)	1.8mm	Undefined
I.	Net volume (ml)	See Table	Same Panel as Name/Brand
J.	Country of origin	1.8mm	Undefined
	Optional Items	**Minimum Height**	**Position**
K.	Vintage	1.8mm	Undefined
L.	Varietal	1.8mm	Undefined
M.	Region of Production	1.8mm	Undefined

Notes:
1. Product type is defined by sugar content.
2. Grape wines are exempt from this requirement.
3. Wines with alcohol content greater than 10% are exempt from this requirement.

Source: AQSIQ

A. Name/Brand: A brand name or trademark may be placed in a prominent position on the label, but should not be misleading as to the true nature of the alcohol.

B. Product Type: A product type defining the true nature of the alcohol is to be placed adjacent to the brand name. If the brand name or trademark is misleading, the product type must be the same size font. Product types are listed and defined below.

B.1 Still Wines: Still wines contain carbon dioxide pressure below 7.25 pounds per square inch (psi) at the temperature of 20°C. In addition to White, Rosé and Red; GB 15037-2005 defines subtypes based on sugar content. Subtype definitions are in Table a.

Table a

Still Wine Sub-type	**Total Sugar\[1] (calculated by glucose) /(g/L)**
Dry wines	≤ 4.0 Or up to 9 g/l if the total acid content falls within 2 g/l of the sugar[2] content
Semi-dry wines	4.1 - 12.0 Or up to 18 g/l if total acid content falls within 2 g/l of the sugar[2] content
Semi-sweet wines	12.1 - 45.0
Sweet wines	≥ 45.1

1. The requirements on the sugar content requirements for low sparkling wines should be the same as those of still wines.
2. For example, 8 g/l sugar and

Source: AQSIQ

B.2 Sparkling Wines: Sparkling wines have naturally produced carbon dioxide pressure carbon dioxide pressure equal to or higher than 43.51 psi in bottles smaller than 250 mL, at the temperature of 20°C. Further subtype definitions defined in Table b.

Table b

Sparkling Wine Sub-type	**Total Sugar[1] (calculated by glucose) /(g/L)**
Brut sparkling wines[2]	≤ 12.0
Extra-dry sparkling wines[2]	12.1 - 17.0
Dry sparkling wines[2]	17.1 - 32.0
Semi-dry sparkling wines	32.1 - 50.0
Sweet sparkling wines	≥ 50.1

1. The requirements on the sugar content requirements for low sparkling wines should be the same as those of still wines.
2. A difference of 3.0 is allowed.

Source: AQSIQ

B.3 Semi-Sparkling Wines: Semi-sparkling wines have naturally produced carbon dioxide pressure between 7.25 psi and 43.5 psi in bottles smaller than 250 mL, at the temperature of 20°C.

B.4 Carbonated Wines: Carbonated wines have carbon dioxide pressure that is partially or completely added manually.

B.5 Liqueur (Fortified) Wines: Fortified wines have a liquor content of 15 – 22 percent with addition of brandy wine, edible alcohol or grape alcohol, a grape juice, condensed grape juice, caramel grape juice or granulated white sugar.

B.6 Ice Wines: Ice wines are made from grapes picked when the temperature is below -7°C. There is no sugar added in the production process.

B.7 Noble Rot Wines: Noble Rot wines are made from grapes cured with botrytis cinerea.

B.8 Low Alcohol Wines: Defined as wines whose alcohol content is 1 – 7 percent and which are produced with special techniques after partial and complete fermentation of fresh grapes and grape juice.

B.9 Non-alcohol Wines: Defined as wines whose alcohol content is 0.5 – 1 percent and which are produced with special techniques after partial and complete fermentation of fresh grapes and grape juice.

C. Ingredients: Wines made up of a single raw material are exempt from this requirement. However, fortified wines must list additives. For further additive listing requirements refer to GB 2760. Any preservatives must be specifically listed rather than simply listed or grouped as under the rubric of "preservatives."

D. Alcohol Content: Alcohol content should be labeled as "Alcohol Strength." Must be listed as a percentage of volume.

E. Must Content: Grape wines are exempt from this requirement. It is solely for beer and non-grape wine.

F. Names and Addresses: The names and addresses of the Chinese agent, importer or distributor registered in China, must be declared. Any company that bears independent statutory responsibilities should have their address listed as well, but it need not be translated to Chinese.

G. Bottling Date: A major requirement difference between Chinese regulations and U.S. common practice is the bottling date. Every unit of wine must have a bottling/packaging date. It is to be listed in the order of year-month-day. Four digits are generally required for wine. The following examples for July 4, 2009 are acceptable methods:

- 2009 07 04
- 20090704
- 2009-07-04

Labels are not allowed to be in the form of removable stickers or blocked in any way by a sticker. Therefore, the law suggests that the bottling date must either be etched onto the bottle or on the official label. If the date is placed somewhere other than the official-label its location must be clearly described on the label.

H. Quality Guarantee and Storage Period: Wines with alcohol content of 10 percent or greater are exempt from this requirement. If containing lower than 10 percent alcohol the requirement must be filled by using one of the following methods:

a) For the date of minimum durability:
"Best before…"
"The date of minimum durability up to…"
"The date of minimum durability of…"

b) For the use –by date:
"Use by…"
"The use-by date up to…"
"The use-by date of…"

Any further storing instructions should also be included in this section, especially if the guarantee date is dependent on proper storage.

I. Net Volume: Net volume must be indicated on the same panel as name and product type. The word size and measurement unit varies depending on volume (Table c).

Table c

Net content (Q)	**Minimum height of characters (mm)**
5ml < Q ≤ 50ml 50ml < Q ≤ 200ml 200ml< Q ≤ 1L Q > 1L	2 3 4 6
Scope of net content (Q)	**Measurement**
Q < 1,000 mL Q ≥1,000 mL	mL (ml) L (l)

J. Country of Origin: The country of origin is required and must be verified. Verification can be obtained by the *State Commerce Department.*

K. Vintage: No less than 80 percent of content should be grapes harvested during the indicated vintage year.

L. Varietal: The claimed grape varietal should make up 75 percent of the wine content.

M. Region of Production: Grapes from the claimed region should comprise no less than 80 percent of the total volume.

Additional requirements
All information labeled in English must also be equally represented in Chinese and in the same size font. That size being the minimum 1.8 mm. All labels must be permanent in the sense that they cannot be separated from the bottle.

Transportation Requirements

Bottled wine must be placed upside-down or horizontally. Further transportation requirements are rather lax, so it is advised to keep with industry standards in order to maintain product quality.

By law, the port requires a 24-hour notice prior to shipment arrival. Importers usually communicate with the port days or weeks prior making the law negligible. Communication with one's importers prevents any problems in this area.

Customs Inspection

According to regulations, less than 1,500 mL will be sampled if bottles contain less than 500 mL. Samples will be selected randomly and proportionately in accordance with the testing rubric below.

Testing Rubric

Scope (boxes)	Number of samples (boxes)	Number of unit samples (in bottles)
<50	3	3
51-1,200	5	2
1,201-3,500	8	1
Over 3,501	13	1

Test samples are immediately flagged and taken. Two bottles are sealed for inspection two months later. The remaining samples are taken to sensory, physical, and chemical tests.

It is important to reiterate that this process may not occur precisely as described.

Appendix C
Tariffs

Three compounded taxes are levied on imported wine to China:

- Import Tax Rate (ITR)
  - Bulk wine **20 percent**
  - Bottled wine **14 percent**
- Consumption Tax Rate (CTR) **10 percent**
- VAT Rate (VATR) **17 percent**

Taxes on bottled and bulk wine differ only in the Import Tax Rate. In figuring out the total tax rate on wine, following formula may be of use:

$$\textbf{Total Import Duty} = \frac{ITR + CTR + VATR + (ITR \times VATR)}{(1 - CTR)}$$

Using bottled wine as an example, the compound rate is calculated as follows:

$$\textbf{Total Import Duty} = \frac{0.14 + 0.1 + 0.17 + (0.14 \times 0.17)}{(1 - 0.1)}$$

Simplifying,

$$\textbf{Total Import Duty} = \frac{0.41 + 0.0238}{0.9} = 0.482 = \textbf{48.2 percent}$$

As shown, the total import duty on bottled wine is **48.2 percent**. Using the same formula, you find the total import duty on bulk wine to be **56 percent**.

Source: 2009 Customs Import and Export Tariff of the People's Republic of China

Appendix D
SRTG Description and Contact Information

Description

The four State Regional Trade Groups (SRTGs) are the first stop in reaching international markets. By combining federal, state, and private industry funding, the SRTGs offer focused programs to assist companies in gaining international market share for agricultural based products.

SRTGs coordinate activities such as international trade exhibitions, outbound trade missions and in-bound buying missions, technical trade seminars, in-country research, and point-of-sale promotions in foreign retail chains and restaurants. SRTGs and their state marketing representatives work closely with the USDA's Foreign Agricultural Service staff in Washington D.C. and at overseas posts to implement these export market development programs.

Programs and services offered by the SRTGs are funded through the Market Access Program (MAP) of the USDA's Foreign Agricultural Service, State Agricultural Promotion Agencies and private industry. To find out more about each organization, please visit their Web site listed below:

State Regional Trade Group	Region	Contact Information
Food Export Association of the Midwest USA	Midwestern states	www.foodexportalliance.org Ph. 312.334.9200
Food Export USA – Northeast	Northeastern states	www.foodexportalliance.org Ph. 215.829.9111
Southern U.S. Trade Association (SUSTA)	Southern states	www.susta.org Ph. 504.568.5986
Western United States Agricultural Trade Association (WUSATA)	Western states	www.wusata.org Ph. 360.693.3373

Companies may choose to participate in a region where they source products, have a headquarters, or have a production facility.

Other Contacts:

California Wine Institute
425 Market Street Suite 1000
San Francisco, CA 94105
Phone: 415-512-0151
Fax: 415-442-0742
Alternate Fax: 415-356-7569

Northwestern Wine Coalition
93 Pike Street
Seattle, WA 98101
Phone: 206-667-9463

Appendix E
Exporting Product to China & Sending Samples

Step One: Market Research

Having read this report and all the reports cited therein, an exporter should be informed enough to make a decision whether or not to proceed; however, too much research is never a negative factor. Upon deciding to do business or simply measure the market, register the company trademark and wine label.

Step Two: Find Interested Distributors

In addition to privately researched distributor and importer company contacts, exporters should contact the local Agricultural Trade Office (ATO) for further contact information. The ATO will also be able to identify any red-flagged companies that U.S. exporters have had problems with in the past.

After the initial communication, provide samples, pricing information, and brochures to companies that express interest. During this face shipping samples via post is advisable. Samples for trade shows and the like will be addressed after exporting information.

Upon receiving positive feedback, book meetings with interested companies.

Step Three: In-Market Visit

Before arriving in China, prepare a marketing strategy for the exporting company and identify goals. While meeting with importers, match the company against the suggested criteria in **Appendix A**.

Negotiating the relationship agreement between the two parties is quintessential to a healthy business relationship and successful marketing strategy. The relationship should address the following:

- A single market strategy and branding image to be followed in China
- Each party's involvement in promotional and new market seeking activities
- Payment distributions for in-market charges
- Sales goals
- Payment methods

As a new business relation, signing a sole distributor agreement at this time is ill-advised. ATO Shanghai suggests working with multiple distributors until a proper market niche presents itself.

Step Four: Discuss Shipment Logistics and Payment method

The local imported usually has a suggested mean of transportation. Sea freight is typical of wine and should be shipped in accordance to the transportation guidelines listed in **Appendix B**.

It is important to confirm the time schedule and certificates required. Required documentation includes the following:

- **Invoice and Packing list:** Provided by shipping service.
- **Phyto-sanitary certificate:** Provided by Animal and Plant Health Inspection Service (APHIS) (only needed for wooden crates)
- **Certificate of Origin:** Provided by Chamber of Commerce
- **Bottling certificate:** Provided by winery

Payment type should be addressed in negotiations. For international business deals payment is generally made through a certificate of credit issued by an international bank. It is important to be clear with counterparts the party responsible for different charges, i.e. shipping costs and insurance fees.

Step Five: Ship product

Certificates and customs documentation must match in definitions and container numbers. Originals should be shipped with wine and copies sent to the importer. A copy should also be kept for records.

Upon receiving arrival confirmation follow up on payment.

Step Six: Communicate Throughout Marketing Strategy Implementation

At this point many exporters believe their involvement to be over; where in fact communication at this point is most essential. Ensuring the marketing strategy is being followed as planned and gauging sales patterns is needed for proper evaluation. Continual communication is the only way to be certain the importer is following through as planned.

Step Seven: Reevaluate the Situation

After a given period time reevaluate the importer against the initial agreements and redefine the company's marketing strategy. Determine whether the market strategy fits the product. Also, sharing importer relationship experiences helps ATO accurately inform fellow U.S. exporters.

Samples

Step One: Identify a Logistics Company

Through personal research identify a logistics company and shipping method. If time permits it is suggested to use sea shipment oppose to air.

Check with the respective ATO for help identifying a logistics company to ship samples.

Payment type should be addressed in negotiations. For international business deals payment is generally made through a certificate of credit issued by an international bank. It is important to be clear with counterparts the party responsible for different charges, i.e. shipping costs and insurance fees.

Step Two: Letter from ATO

For easier port entry, it is advised that companies obtain a letter of intent from the respective ATO. The letter reaffirms that the shipment is for sample use only and will not be sold commercially. Notifying the ATO should be done well in advance to the shipments arrival at the port.

Step Three: Ship product

Certificates and customs documentation must match in definitions and container numbers. Originals should be shipped with wine and copies sent to the logistics company. A copy should also be kept for records.

Upon receiving arrival confirmation follow up on payment.

Important Note:

Wine samples are subject to full import duties by regulation. However, it has recently come to the attention of ATO Shanghai that a sample shipment of 12 bottles total, will be allowed to enter China duty free. There is no Chinese regulation or law that supports this practice, which very well may be based a particular company's relationship with the port. Distributors and import agents will provide further information.

Appendix F
Discrepancy between ATO coverage areas and Euromonitor regional breakdown

When reporting on market situations, ATOs in China reported to their particular coverage area as shown in the bottom left panel. Regional data provided by Euromonitor and used in this report is representative of the regions as shown in the bottom right panel and not precisely representative of ATO coverage areas.